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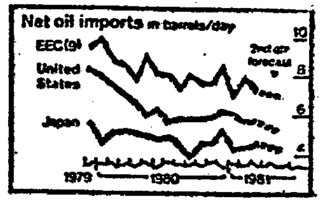
Down with oil imports



The oil glut shows the way to escape from Opec

Oil consumers are the world's whipping boys—rebuked for mindless profligacy when supplies are tight, grimly exhorted not to cheer a (temporary?) glut. Here's a happier message for them: for the first time since 1973, things are going right. To the haggard veterans of a thousand energy conferences, a hundred 17-point plans for action, it seems an occasion worth remarking.

Since 1973, the rich industrial countries have had one simple need: to reduce, by whatever means are cheapest and most effective, their helpless dependence on oil from the Gulf. This dependence allows Opec to ratchet oil prices up, hamstrings western foreign policy, and makes the stability of countries like Saudi Arabia simultaneously more important and less likely.

Realising this need, choosing the means, discovering which are really helpful, has taken seven years and a second leap in oil prices. Because consuming countries have only muddled through, there are risks still to come. But there is one big difference between this glut and the one that choked the world's tanks with oil four years ago. The United States has rediscovered the price mechanism, and it works.

President Carter, effortfully, and President Reagan, effortlessly, have between them ended the artificial underpricing of America's oil. American consumption is dropping like a stone, which helps make the dollar strong. A rising dollar means that oil prices are rising for consumers with weaker currencies. Western Europe and Japan are paying 4-8% more for crude, after allowing for inflation, than they were in the first three months of 1981. Since Europe and Japan feed higher prices promptly though to the pump, their consumption forecasts are revised downwards daily. In the previous glut, the opposite mechanism was at work. Cheap American oil helped make the dollar cheap too, as oil imports soared and the American trade deficit deepened. Cheaper dollars meant cheaper oil for everybody else. As real oil prices fell, consumption rose.

Paying more to Opec is nothing to cheer about. Governments with the courage to raise oil taxes as fast as inflation, or faster, put more money into their pockets, less into an Opec bank account. Every western statesman who raises petrol taxes deserves prolonged applause from every numerate and patriotic legislator and voter, although from Canada to Westminster the poor chap does not usually get it.

The other methods of economising on Opec oil are by finding other oil (everybody should welcome the CIA's revised guesstimate that Russia will not be an oil importer this decade) and switching to other energy. The club of rich oil consuming countries, the International Energy Agency (IEA), has recently argued that, by using coal to meet two thirds of every extra need for fuel, its members could let their economies grow and yet cut oil imports by a third in 20 years. These calculations—blindfold stabs at an ever-changing future, like all such—assume average real gnp growth of 3% a year, a fourfold growth in nuclear power, more "renewable" energy, a further slowing of the rate at which an extra lump of output gobbles up an extra dollop of fuel, and the burning in IEA countries of another 5½m tonnes of coal a day. Some tall orders, but look at the prizes: a drop in oil imports into IEA member countries from today's 22m barrels a day (b/d) to 19m b/d in 1990 and 15m-17m b/d by the year 2000. And a drop in oil's share of world energy use from half now to a quarter then.

What could still go wrong

There are three foreseeable crises or actions which could trigger another sharp rise in the price of oil this decade: a nationalist revolution in Saudi Arabia; a world boom which brought galloping oil consumption, and a further drop in Opec's willingness to export oil. Serious steps to reduce western and Japanese oil imports can diminish each of these risks.

The longer the Saudi rulers have to produce 10m b/d, to bully their Opec partners into line or help their friends in Washington, the greater the chance of a revolution there. If the royal family can get the same results, in both spheres of interest, at a lower level of production, its chances of survival will increase almost barrel by barrel. Even an unsuccessful Saudi revolution would lead, once the shooting was over, to a sharp downwards shift in production, and another oil panic.

The second worry—a world boom—should not be a worry at all. The higher that internal oil prices are kept, the further both rich and poor countries' economies can expand without provoking another energy crisis.

Opec's varying willingness to supply oil is a reflection partly of its hopes for the future, partly of its fears for the present. As political tensions and domestic instability rise in the Gulf, and piled-up overseas assets increase the flow of non-oil income, Opec slowly loses the incentive to produce so much oil. But every time oil consumption drops in industrial countries, Opec loses the chance to get more money for less oil. So long as some Opec countries can—at a pinch—get by without oil revenue, the threat of supply cut-offs to force up prices remains. But each shift away from oil makes it less potent.

The glut is good news. The shift in policies which helped produce the glut is even better news. It is clear, from the way consumption patterns have changed since 1979 that higher petrol taxes, greater encouragement to energy saving, less hindrance to energy production give the oil consuming countries the chance to escape from Opec's toils. And that's the best news of all.